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SUBJECT: U.S.-JAPAN CENTRAL ASIA DIALOGUE: PART TWO,
FOREIGN ASSISTANCE AND PROJECT FINANCE

Classified By: CDA Joseph R. Donovan. Reasons 1.4 (b,d)

11. (SBU) SUMMARY: Deputy Assistant Secretary for South and Central Asian Affairs Evan Feigenbaum and a team of State and USAID officials continued their full-day U.S.-Japan consultations on Central Asia with interagency meetings on foreign assistance and project finance. MOFA International Cooperation Bureau Deputy Director-General Hiroshi Fukada hosted a session attended by four other agencies to discuss assistance programs to the countries of Central Asia. Following this meeting, DAS Feigenbaum and the USG team met separately with officials from the Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA) to further discuss assistance programs and project finance opportunities in Central Asia. DDG Fukada told Feigenbaum the United States and Japan should increase information sharing as a first step in coordinating their development programs in Central Asia. Feigenbaum stressed that development assistance strategies must focus on broad capacity-building, to support a spectrum of interests, including enhanced security, the expansion of markets, business development, and the spread of political and economic openness in the region. The two sides also discussed specific strategies and underlying assumptions of their assistance to Central Asia, with an eye toward enhancing cooperation between the U.S. and Japan. END SUMMARY.

12. (SBU) SCA DAS Evan Feigenbaum led a U.S. team to Tokyo on December 9 for discussion of how the United States and Japan can work together to advance shared goals in Central Asia. He was accompanied by SCA Senior Advisor for Regional Economic Integration Robert Deutsch, USAID Europe and Eurasia Bureau Senior Program Officer Timothy Alexander, and USAID Central Asia Mission Director in Almaty, Kazakhstan, Christopher Crowley. In addition to discussing assistance programs, DAS Feigenbaum's consultations also covered U.S. and Japanese strategic priorities in the region, policies

toward each Central Asian country, the roles of Russia, China, and Iran, and the climate for private investment in the region, reported septels.

ASSISTANCE IN CENTRAL ASIA

13. (SBU) MOFA International Cooperation Bureau Deputy Director-General Hiroshi Fukada began the interagency session on assistance priorities by introducing a Japanese team from various MOFA bureaus, as well as JBIC, JICA, the Ministry of Economy, Trade, and Industry (METI), and the Ministry of Finance.

14. (SBU) Japan believes, said Fukada, that Central Asian countries lack the ability to manage existing infrastructure, so donors must concentrate on building management capacity by training personnel and providing technical assistance. The collapse of the Soviet Union left a legacy of problems that continue to plague border control, water/energy management, transportation, and business development in Central Asian countries. Central Asian governments must improve their cooperation with each other, international organizations, and the private sector if Japan and the United States are to conduct successful programs.

Borders and Customs

15. (SBU) The United States, said Feigenbaum, focuses heavily on &wedge8 issues. For instance, improving border security

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and modernizing customs help to improve security but also facilitate trade. Senior Advisor Deutsch noted that the U.S. is engaged with all of the countries of the region on border issues, usually in an effort to stop illicit trade in narcotics or products of proliferation concern. In a number of cases, notably Tajikistan and Afghanistan, there is a complete lack of border facilities and countries seek to manage their borders well inside of the border. The unpredictable nature of border controls, as well as other obstacles to the movement of goods such as corruption and random checkpoints, are identified by shippers as the biggest barrier to trade. Deutsch noted that we hope to work with the International Financial Institutions, other donors, and the countries of the region, based on our enforcement border control work, to try to facilitate trade. In addition to physical resources, creating central databases and training personnel are key aspects of improving border security. The Japanese side indicated that a trade facilitation mission will shortly be looking at these issues in Central Asia, and Deutsch requested that Japan coordinate its program ideas with U.S. embassies in the region so that the two countries could develop complementary strategies.

16. (SBU) Border control is closely linked to improving the business environment, noted MOFA Aid Policy Planning Division Director Naoki Ito. To improve security and enhance regional trade, the government of Japan is conducting project formulation studies in all countries of Central Asia except Turkmenistan. Japan is currently evaluating a project proposal for Tajikistan and is looking for opportunities on the Afghanistan side of the border as well, said DDG Fukada. The next step for U.S.-Japan cooperation is to increase information sharing on programs already being implemented as well as proposals for future programs. DDG Fukada suggested the United States and Japan exchange papers with information on new programs in February 2007.

17. (SBU) Supporting the full implementation of international customs codes is a critical aspect of this initiative, explained USAID's Alexander, emphasizing the need for private sector access to information and documentation requirements.

Transportation Links Key to Regional Prosperity

18. (SBU) Developing transportation links in the Central Asia region is a priority for Japan, said DDG Fukada. When the former Soviet Union collapsed, it left behind a network of railways that repeatedly crossed national borders. Japan has been assisting Central Asian countries, especially Uzbekistan and Tajikistan, to rebuild the railways to respect national sovereignty. Fukuda again stressed the need to develop infrastructure management capabilities, noting that the Central Asians were still unprepared to manage existing railways or border crossings.

Water and Energy Trade Integration

19. (SBU) Improving the distribution of electricity and water is a clear way to increase stability in the region, the U.S. team told DDG Fukada. The United States, said Deutsch, is working at three-levels to develop the region's energy trade: targeting domestic markets, bilateral markets, and regional markets. Domestic programs focus on fixing pricing problems, fighting corruption, enacting legal reforms, increasing private sector involvement, and developing institutions, explained USAID's Crowley. The United States, Deutsch added, is also working with its international

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partners to improve availability of electricity in Afghanistan, notably through bilateral trade with its Central Asian neighbors. Afghanistan is negotiating supply arrangements with Turkmenistan, Uzbekistan and Tajikistan. The Asian Development Bank is heavily engaged in developing the facilities for transmission of this electricity in the northern part of the country. It will approve a loan for the interconnection with Tajikistan in mid-December. Deutsch indicated that the U.S. is also working closely with the International Financial Institutions, led by the World Bank to develop a model project that will deliver 1000 megawatts of electricity to Pakistan from Tajikistan and Kyrgyzstan across Afghanistan by 2010.

10. (SBU) Japan is currently conducting six different projects in Central Asia to develop the region's water and energy resources. In addition to two thermal power plants and three water resource projects in Uzbekistan, Japan supports the Astana Water Supply and Sewerage project in Kazakhstan. METI Middle East and Africa Division Director Toshikazu Masuyama noted that lack of a legal framework for transportation of energy and gas was a significant impediment to development of the regional market. He noted that improving energy efficiency in Uzbekistan, as signatory to the Kyoto treaty, created emissions credits which benefited Japan. Japan and the United States should encourage progress in the creation of such a framework.

11. (SBU) The stalled delimitation of the Caspian Sea remains a barrier to regional trade in hydrocarbons, said DAS Feigenbaum. The United States hopes that the border countries will be able to set aside their political differences to move ahead with pipeline development. Noting that the situation was especially sensitive for the Kazakhstanis, Deutsch told DDG Fukada that the United States Trade and Development Agency (TDA) is going to do a feasibility study on trans-Caspian pipelines and alternatives including liquefied and compressed gas.

Business Development: Dependent on Local Conditions

12. (SBU) Establishing the rule of law is crucial in promoting business development, said DDG Fukada. In addition to pushing for legal reforms, Japan has established Centers for Human Development in Kazakhstan and Kyrgyzstan. These

centers are a great tool for supporting Small and Medium Enterprises (SMEs), which need micro-financing and are essential to overall progress. Japan International Cooperation Agency (JICA) Second Regional Department Director Hiroshi Niino explained that last year JICA conducted a large survey of the region's business environment. Niino said the survey results, which should come out in 2007, will concur with concerns about Uzbekistan cooperation or lack thereof.

Getting the Right Mix of Donors and Projects

¶13. (SBU) The Central Asia Regional Economic Corporation (CAREC) and the Asian Development Bank (ADB) have been important partners in regional development, agreed DAS Feigenbaum and DDG Fukuda. The United States is interested in increased cooperation with CAREC, and is supportive of an ADB proposal to create a CAREC plus 3 framework to do so (CAREC plus the United States, European Union, and Japan). CAREC interaction with the major market economies would provide added weight to the one regional organization that is most likely to promote market approaches to development. We would welcome thoughts on how we might structure such

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interaction.

¶14. (SBU) Japan also likes CAREC, stated DDG Fukuda. It is a geographically balanced organization, and well structured to administer financial assistance, infrastructure development, and technical assistance. The government of Japan wants to increase coordination with the United States and the European Union, and sees the CAREC plus 3 format as an effective way to enhance regional cooperation. CAREC is the most promising framework, agreed MOFA Central Asia and Caucasus Division Director Hideki Uyama, who had attended a recent CAREC meeting in Urumqi, China. In addition to using CAREC as an aid coordination body, it provides a venue for bilateral meetings on the margins to compare strategies.

----- JBIC'S VIEWS ON CENTRAL ASIA -----

¶16. (SBU) Following the morning session, DAS Feigenbaum and his delegation met separately at JBIC headquarters with Hara Shohei, Director of the Program Division and Division 2 of Development Assistance Department IV, and Tankanori Shiraishi, Country Officer for Central Asia and the Caucasus from Shohei's office. In addition, Kiyoshi Ishii, Team Director of JICA's Central Asia and the Caucasus Team of Regional Department II was also present.

¶17. (U) Hara opened by noting JBIC has been providing assistance to Central Asian countries for fourteen years. JBIC has identified six key development challenges in the region as follows: improving the business environment, reducing poverty, developing human resources, modernizing the economic and social infrastructure, diversifying industry, and accelerating intra-regional cooperation. Of these, JBIC has chosen to focus on three:

-- modernizing the economic and social infrastructure, including efforts to achieve economic reform, emphasizing effective use of water and energy resources, and greater efficiency in the transportation network;

-- human resource development and institutional reform through the provision of technical assistance to build capacity;

-- accelerating intra-regional cooperation by emphasizing effective use of energy and water resources and by assisting the development of transportation infrastructure.

¶18. (SBU) Of the Central Asian countries, JBIC's major program is with Uzbekistan, where six projects are being financed by Japanese ODA loans. Five projects are being financed in Kazakhstan, two in Kyrgyzstan, and one in Turkmenistan. Hara explained that JBIC plans to focus future programs mainly on Uzbekistan and Tajikistan. Kazakhstan has become so wealthy that they no longer need ODA funding. Kyrgyzstan is so highly indebted that JBIC cannot make further loans. And the political situation in Turkmenistan makes it impractical to plan any projects there at this time.

Tajikistan

¶19. (SBU) Hara noted that although JBIC currently does not have any projects in Tajikistan, it was been working with the World Bank and ADB and believes the situation in that country is likely to improve quickly. A team from JBIC will visit Dushanbe the week of December 11 to evaluate what can be done

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there and characterized Japan's approach at this time as one of "cautious entry." He noted there is no way Japan will even try to match China's recent loan of USD 637 million and said that an initial commitment of USD 20M to USD 30M will be more realistic. JBIC is aware of the efforts to develop Tajikistan's potential to be a major exporter of hydropower, but Hara cautioned that Japan does not have the resources or the intention at this time to engage in massive hydroelectric or transmission grid projects. More than likely, Japan will elect to co-finance other projects with the World Bank or ADB, where the Japanese contribution can achieve a higher profile.

¶20. (SBU) DAS Feigenbaum counseled the Japanese not to let the Tajiks distract them with multibillion-dollar projects and said the World Bank is willing to focus on smaller things. Senior Advisor Deutsch added that Japanese contributions as a small participant in larger projects -- such as the model transmission project -- would be more than welcome. Hara agreed that whatever JBIC decides to do in Tajikistan, it will be working closely with the World Bank.

Uzbekistan

¶21. (SBU) Hara started out by referring to Uzbekistan as "our biggest headache." He explained how JBIC's largest program in the region is with Uzbekistan and that it includes railway, power, airport modernization, and secondary education projects. He said Uzbekistan is keen to get yen loans from Japan, but the slow progress of the projects started to date have given the Japanese pause. No new JBIC commitments will be made to Uzbekistan at this time. Instead, Japan will focus its assistance on smaller, more discrete projects run by JICA. These include sending technical assistance teams to train the Uzbeks how to better manage their existing power facilities, one plant at a time. Their hope is that as one plant becomes more efficient, it will serve as a model for the others. JICA also conducted a brief study last year of possible regional cooperation in the water and energy sectors.

JICA'S STRATEGY

¶22. (U) Following Hara's presentation, Ishii briefed on JICA's approach to the region. JICA's highest priorities for the region are:

- institution-building and human resources development for the introduction of market economies;
- restructuring the social sector, primarily the medical

sector which has collapsed due to the lack of financial resources and access to modern technology;

-- rehabilitating existing infrastructure;

-- promoting regional cooperation.

¶23. (SBU) JICA's approach to these goals is different in each country based on local conditions. In Kazakhstan, where the Japanese assess the transition is comparatively progressive, emphasis will be on programs that support WTO accession and that rehabilitate transportation infrastructure. In Kyrgyzstan and Tajikistan, where transition is comparatively progressive but where there is risk due to high levels of poverty and debt, attention will be paid to rehabilitating the social infrastructure,

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including community-based regional development and poverty alleviation programs that foster entrepreneurship. In Uzbekistan, where the Japanese view transition as stagnant, JICA will concentrate on capacity building in government organizations, rehabilitating transportation infrastructure, and improving the Customs function in order to facilitate increased regional cooperation. In order to carry out its policies, JICA maintains offices in Tashkent, Bishkek, and Dushanbe. Ishii concluded by noting that JICA hopes to begin a trade facilitation program in Central Asia sometime soon and would be interested in learning more about U.S. programs in this field.

USAID APPROACH

¶24. (SBU) Following the presentations by Hara and Ishii, USAID Central Asia Mission Director Crowley provided a briefing on AID's approach to the region. He explained that AID deals with the region on a country by country basis and that the types of programs in which AID engages are grouped into three categories: economic growth, which includes trade, energy, agriculture, business development, water resources; investing in people, mainly through programs in the health and education fields; and governance/democratization, which includes rule of law and media development programs. He noted that the only commonality shared by the five countries of the region appears to be their lack of interest in the governance/democracy-building programs. Uzbekistan has been very difficult to work with lately, as the government has moved to restrict civil society groups and has made operating conditions for us very difficult, including placing restrictions on visa issuances for our personnel. We face similar problems in Turkmenistan, but not to the same degree.

Accordingly, we currently hold out more hope for our programs in Kazakhstan, Kyrgyzstan, and Tajikistan, even though each continues to have some negative factors. With regard to Kazakhstan, as noted by Hara, the country has become very wealthy to the point where it no longer requires financial assistance and is, in fact, beginning to co-fund our programs there and to help with the selection of local grantees. This is the first time such a thing has taken place in an AID program. And despite the problems encountered in Uzbekistan and Turkmenistan, we will continue to attempt to work with both countries.

COMMENT

¶25. (C) As was the case in several sessions on U.S. and Japanese strategic priorities, the opportunity to discuss development assistance programs in Central Asia with representatives of MOFA, METI, JBIC and JICA was extremely beneficial. All participants agreed there is much to be gained by further such engagements and that efforts should be made to enhance cooperation among donors. DAS Feigenbaum

stressed throughout that, while there inevitably will be some competition among outside powers, the primary strategic purpose of U.S.-Japan cooperation is not to "compete" with Russia or China for its own sake, but rather to give the countries of the region more than one choice about who they can do business with, to where and by what means they can transport their exports, and to whom they can look to for assistance. In short, U.S. policy is not "anti-Russia" or, for that matter, anti-anyone. Rather, we offer an affirmative, not negative, vision to the countries of the region, and in this sense are simply "anti-monopoly." Our primary goal is to bolster their sovereignty and independence

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by broadening their range of choice. It is unclear whether the Japanese, who still tend to view the region through a traditional "Great Game" prism, focused on both Russia and China, fully agree. But what was agreed at these sessions was the need to work in closer concert to advance our mutual interests in the region, as well as a more globally-oriented U.S.-Japan alliance.

126. (U) Deputy Assistant Secretary Feigenbaum cleared this cable.
DONOVAN